Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 4 Agenda

Joseph Dunn, Chair
Tom McClintock
Christine Kehoe

Wednesday, May 11, 2005
1:30 p.m.
Room 2040

Consultant: Dave O’Toole

“C” AGENDA

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0840 State Controller

The State Controller is the Chief Financial Officer of the state. The primary functions of the State Controller's Office (SCO) is to provide sound fiscal control over both receipts and disbursements of public funds; to report periodically on the financial operations and condition of both state and local government; to make certain that money due the state is collected through fair, equitable, and effective tax administration; to provide fiscal guidance to local governments; to serve as a member of numerous policy-making state boards and commissions; and to administer the Unclaimed Property and Property Tax Postponement Programs. Total proposed budget expenditures are $124.7 million, of which $72.7 million is from the General Fund.

1. **Local Government E-Claims.** The State Controller's Office proposes to buy and install a commercial software product that would enable state mandate claimants and consultants to enter mandated cost claims directly into the SCO's main database via the Internet, using e-forms and digital signatures. The SCO additionally requests two permanent positions and one limited-term position to provide application development, technical support, internal consulting, and other ongoing support.

   The SCO has submitted a feasibility study report which has been approved by the Department of Finance and reviewed by the Legislative Analyst's Office.

   The SCO will not mandate the use of this technology for mandate claimants and paper filings will still be permitted.

   Staff Comment: A web-based system for filing mandates is appropriate, if somewhat overdue. Mandate information filed online will provide better processing, evaluation, and auditing of the claims. The SCO reports that they are currently able to audit only about 5 percent of the 60,000 paper claims they receive annually. With the addition of electronic filing, the SCO expects to audit closer to 40 percent of total filings. The SCO expects considerable savings in the future based on this new technology: approximately $14 million beginning in 2006-07. Budget year savings could not be reliably quantified.

   Consistent with action taken in the April 13 hearing, this BCP should be adjusted to reflect a five percent salary savings. For this request, a reduction of $5,000 will adjust salary savings from 2.4 percent to five percent.

   In order to keep the Legislature apprised of the fiscal and policy impact of the new Local Government E-Claims (LGEC) system, the State Controller should report back to the Legislature on the project status and savings realized by the LGEC system.

   Staff Recommendations:
   A. Approve the Finance Letter, amended for a five percent salary savings reduction (total funding of $1.210 million)

   B. Adopt Supplemental Report Language to require annual April 1 reports for 3 years regarding project performance and savings realized.

   VOTE:

2. **Property Tax Postponement Program Staffing Augmentation.** The Governor's Budget includes an augmentation of $4.7 million to the Senior Citizens' Property Tax Deferral Program, an increase that is linked to a $40 million reduction to property tax assistance for seniors. This decrease is budgeted in Item 9100, Tax Relief. The Administration concluded that a reduction in property tax assistance would result in a corresponding surge in property tax postponement applications. These applications are processed by the State Controller's Office.

   On April 27, 2005, the Subcommittee, on a 3-0 vote, rejected the Administration's proposal to reduce the Senior Citizens' Property Tax Assistance Program.

   Staff Comment: By restoring the property tax assistance program, the need to augment the SCO's tax postponement staffing is removed. The April 1 Finance Letter to add budget bill language to allow the SCO to add positions in accordance with tax deferral workload does not need consideration by the Subcommittee.

   Staff Recommendation: Reduce the State Controller's budget by $100,000 and two positions, to reflect rejection of the Property Tax Postponement Program staffing augmentation.

   VOTE:

3. **Offsetting Revenues for Mandate Auditors.** The State Controller receives nearly 75,000 claim forms from local agencies and schools for reimbursement for state mandated activities. As it is often noted, due to unclear claiming guidelines, overzealous applicants, and other factors, actual costs are sometimes much lower than the total claim submitted. The SCO conducts detailed "desk" audits to detect costs that are outside the scope of the mandate on approximately 5 percent of the 75,000. This five percent is made up of large dollar and new claims. Existing mandates of moderate or low cost are not desk audited, but do receive a quick arithmetic check and scan for obvious flaws.

   At the April 13th hearing, the Subcommittee adopted a proposal to augment the SCO budget by $996,000 and 11 positions (10 associate management auditors and 1 staff services analyst) to conduct mandate claims audits on a two-year limited-term basis. The anticipated benefit-to-cost ratio will be as high as 45-1.

   Staff Comment: In a subsequent Assembly Budget Subcommittee #4 hearing, that committee adopted a revenue estimate of $2.211 million (General Fund) in 2005-06, offsetting the $996,000 cost by $1,215,000. That revenue estimate was based on the determination that 2004-05 claims due and payable in 2005-06 will be the first priority for audit consideration. Based on the assumptions of auditor recovery rates noted above, a conservative 2005-06 revenue estimate of $2.211 million was adopted.

   Staff Recommendation: Adopt savings of $2.211 million General Fund due to reduced mandate reimbursement costs in 2005-06 from audit findings and reflect those assumptions as a Change Book adjustment for statewide savings. (This action would conform with an earlier Assembly action.)

   VOTE:

4. **Administrative Costs for Mandate Claims.** Provision 7 of Item 0840-001-0001 stipulates how mandate claim preparation expenses can be paid. The item says that independently contracted mandate preparers may charge the lesser cost of either (a) preparation by the local agency or education authority, or (b) up to ten percent of the total mandate cost for their services, with exceptions when supported by documentation. In practice, independent mandate claim filers

frequently charge ten percent of the total mandate cost or provide documentation to have that limit waived.

During difficult fiscal times, the State has made a practice of suspending or deferring payment of mandate claims. With the passage of Proposition 1A in November, 2004, the state now faces an imminent requirement to start paying back, in 2006-07, the local agency share of the estimated $2.8 billion mandate repayment backlog.

Staff Comment: DOF representatives have informed staff that provision 7 was unintentionally left in the SCO’s budget and that they intended for that language to be removed from that budget item in accordance with their proposal to suspend the mandate reimbursement process mandate.

The State Controller has expressed a related concern that current law precludes them from fully auditing the mandate reimbursement process mandate. This is because the statute of limitations declares that auditing may occur no later than three years after a claim was filed. Because this mandate (and many others) have been deferred in recent years (a process which provides for nominal $1000 appropriation in the budget bill) the SCO cannot audit claims 3 years beyond the last time it was deferred. A proposed solution to this problem is addressed in the Commission on State Mandates item in this agenda.

Staff Recommendation: Delete provision (7) of the 0840-001-0001 item.

VOTE:

0845 Department of Insurance

Under the direction of the Insurance Commissioner, the Department of Insurance (DOI) regulates the largest insurance market in the United States with over $115 billion in direct premiums written in the state. The Department conducts examinations and investigations of insurance companies and producers to ensure that operations are consistent with the requirements of the Insurance Code and that insurance companies are financially able to meet their obligations to policyholders and claimants.

1. **Replacement of Personal Computers, Servers, and Printers.** The DOI requests $729,000 (Insurance Fund) to fund ongoing replacement of personal computers, servers, and printers on a regular cycle of three to five years, depending on the equipment. Technology equipment replacement is not typically funded as part of this department's operating expense budget, but instead is funded by redirections from other sources. The DOI had previously redirected funds from excess salary savings to pay for upgrades and replacements. However, recent position eliminations, and other reductions have eliminated that funding source.

   Staff Comment: According to the state's Department of General Services, a computer and related equipment replacement rate of four years is consistent with industry best practice. However, it is not unusual for that rate to be pushed to five years or more during difficult fiscal periods.

   On April 13, 2005, the Subcommittee requested that the Department of Insurance submit a five-year technology refresh plan, which has been provided. Based on the information provided, it appears the department would disagree with the LAO assertion that capacity and other advancements in personal computers and accessories have slowed in recent years and replacement schedules should reflect that development.

   Staff Recommendation:

   A. Approve the Budget Change Proposal, reduced by $48,682.

   (This reduction reflects implementation of a four-year replacement schedule for notebook users [-$27,842] and "power" users [-$6,800], and reduced funding for the replacement of 44 printers in the budget year [-$14,040]. If the department desires a replacement schedule that is more aggressive than statewide practice, it may consider redirecting funds as it has done in prior years.)

   VOTE:

0860 State Board of Equalization

The State Board of Equalization (BOE), the Franchise Tax Board (FTB), and the Employment Development Department are the state's major tax collection agencies. The BOE collects state and local sales and use taxes and a variety of business and excise taxes and fees, including those levied on gasoline and diesel fuel, alcoholic beverages and cigarettes, as well as others. The BOE also assesses utility property for local property tax purposes, oversees the administration of the local property tax by county assessors, and serves as the appellate body to hear specified tax appeals, including FTB decisions under the personal income tax and bank and corporation tax laws. Total proposed budget expenditures are $364.9 million, of which $209.5 million is from the General Fund.

1. **Electronic Funds Transfer.** The Board of Equalization annually processes more than $33 billion in sales and use tax and other tax remittances. Of that amount, approximately 60 percent are paid through free electronic funds transfers (EFT). The BOE offers the Automated Clearing House debit method which allows taxpayers to transfer funds by authorizing the BOE to electronically debit their bank account when their payment information is submitted.

   The remaining funds come through cash, check, or credit card payment. These non-EFT payments can be made at office locations throughout the state, but are more often submitted by mail to the central processing facility. Credit card payments can be made online or by telephone through an Interactive Voice Response (IVR) System. The credit card processing vendor charges a convenience fee of 2.5% of the transaction amount. Payments under $40 are subject to a minimum fee of $1. In fiscal year 2003-04 the BOE received over $44.6 million (approximately 1.5 percent of total revenues) by credit card.

   For both special taxes and sales and use taxes, all holders of sales and use tax permits whose average monthly tax payments are $20,000 or more are required to pay their taxes by EFT. This $20,000 threshold has been unchanged for nearly a decade.

   For the taxpayer, the most significant deterrent to paying BOE by EFT is the fact that tax form filing is still largely unautomated. Because these documents are usually sent by mail, it's generally more convenient to file a tax form with the remittance, rather than submit one by mail and the other by computer. In comparison, when the FTB implemented electronic filing, electronically filed *remittances* grew from 0.8 million to 1.2 million, a 50 percent increase. The BOE will make an electronic filing opportunity available to 700,000 accounts starting next year.

   At the April 27, 2005, Subcommittee hearing, the BOE stated that it would report back on the impact of lowering the EFT threshold to $10,000 or $5000, in particular the revenue impact, number of new EFT payers, and other considerations.

   Staff Comment: EFT payments are a standard business practice in collections of any value, but particularly so for those with routine collections above $5000. The benefits to the collector include more reliable payments, fewer payment disputes, decreased staff workload, and additional interest income.

   In their reply to the Subcommittee, the department expressed concerns about lowering the EFT threshold, specifically the effect on workload and potential for higher EFT processing costs for the Treasurer.

   In the same letter, the BOE reported that it was initiating two activities that would affect EFT filings. Specifically, the department is planning to initiate a targeted public education campaign involving letters, mail inserts, and articles to encourage taxpayers with monthly tax liabilities between the range of $15,000 and $19,999 to pay by EFT. The letter further notes that the new e-filing tax return requirement available to 700,000 taxpayers actually requires (regardless of liability level) that payment be made by EFT. Expanded EFT can actually complement e-filings as the EFT requirement would encourage some taxpayers to "fully automate" their dealings with BOE and utilize the e-file system.

The BOE reports that additional interest earnings of $192,000 and $344,000 will be generated annually for lowering the EFT filing threshold to $10,000 and $5000, respectively.

Staff Recommendations:
DISCUSSION: Request comment from the BOE on the following:

A. The impact of increased EFT automation on BOE's manual check cashing staff workload.

B. Costs associated with the planned publicity campaign.

C. The reduced incidence of bounced checks associated with EFT and associated revenue effects.

D. The overall effect of a lowered EFT threshold on taxpayer compliance.

ACTION
A. Adopt the revisions to Revenue and Tax Code Section 6479.3 (see attached) and direct the BOE to reduce the EFT threshold from $20,000 to $10,000

B. Direct the BOE to redirect resources from the campaign to notifying selected taxpayers of the EFT option to publicizing the new $10,000 threshold.

C. Direct the BOE report to the Subcommittee by April 1, 2006, on the effect of this change on taxpayer compliance and revenues.

2. **Supplemental Reporting Language of the 2004 Budget Act: Field Office Consolidations.** The 2004 Budget Act included Supplemental Reporting Language (SRL) for the following:

> *The BOE shall provide to the Chair of the JLBC and the chairs of the fiscal committees of the Legislature by December 1, 2004, a report containing the following information: (1) unit costs of providing taxpayer services and audit and collection activities at the BOE's 27 field offices; (2) net annual budgetary benefits of consolidating or closing four BOE field offices (one in each BOE district); (3) estimated impact on all BOE-collected tax revenues from field office consolidations or closures identified in (2) above; and (4) net annual benefits of reducing or eliminating the Houston office of BOE. Data provided shall include one-time and ongoing budgetary and revenue impacts. The information shall also be provided to the DOF.*

On December 1, 2004, the BOE provided a report that, rather than identifying four offices for closure, provided summary information on the costs to close all field offices.

The report notes that BOE has closed 32 offices in the last 11 years, 28 of which were closed between 1994 and 1996. Over the last eight years, there has been a relative freeze on field office closures, with one closed in 1997, two in 1998, and one in 2004—with three offices opened during the same period.

Staff Comment: The dramatic rise in the general public's use of information technology resources in the last eight years has vastly diminished the public's need to visit a field office. Filing forms can now be easily downloaded online and questions answered by phone or e-mail. According to the BOE, their Information Center receives over 350,000 telephone inquiries and 12,000 e-mails per year, with an overall average wait time of 90 seconds. Additionally, at prior budget hearings the BOE has reported how it intends to broaden its use of EFT and e-file technologies, with the latter tax forms online. BOE will offer this service to 700,000 eligible businesses in December of this year.

In recognition of the reduced need for street front presence, staff developed criteria to identify four offices for closure—the SRL direction that was not met. Using the data supplied in the BOE report, staff compared program cost per visitor, revenue per visitor, revenue per program cost, revenue per staff person, visitors per staff person, permits per staff person, and first year cost per savings ratio. The last ratio was double weighted to reflect the relative importance of cost savings. Consistent with past practice on office closures, no offices where investigations, tax collections, and fuel taxes were considered for closure. Based on that analysis, the following four offices should be considered for closure:

Office	Number of Staff	First Year Cost	Potential Annual Savings
Long Beach	2.5	$183,077	$65,141
Ventura	50	$704,030	$219,442
West Covina	84	$1,045,682	$355,052
Kearny Mesa	1.5	$27,540	$1,998
TOTAL	136.5	$1,960,329	$576,492

If these offices were closed, several alternate offices would be available in the Los Angeles and San Diego regions.

BOE has stated that no staff reductions will occur as a result of office closures. The “first year cost” reportedly includes costs to move staff, buy out leases, increase travel budgets (as necessary), and pay for other incidentals associated with the move.

It is not clear that first year costs reflect lease savings and other savings associated with closing down a field office. Given the extremely tight state office building occupancy rates (99 percent, according to DGS), other state departments may be eager for the space. The discussion questions below are suggested to clarify first year closure costs.

Whatever the amount, closing offices would incur an expense in the first year. To pay those costs, the BOE could potentially absorb the expense. Staff notes that the BOE did not participate in the unallocated reduction drill that is reflected in most departments’ 2005-06 budgets. For example, the FTB took an ongoing reduction of $7.8 million to their budget (a 1.1 percent of their budget), none of which will affect revenue generating activities. The closure costs outlined above would constitute a smaller amount and smaller share of their budget (.5 percent), relative to the FTB unallocated reduction. Additionally, unlike the FTB reduction, the BOE reduction would not be ongoing.

In order to better reflect the diminished necessity of street front presence and generate savings for the state, it is recommended that the Subcommittee consider closing four BOE field offices.

Staff Recommendation: Request the BOE report on:

A. How specifically the potential annual savings associated with closing these offices was calculated.

B. The specific offsetting lease savings for space that will be re-let.

C. Actual costs for the Torrance office closure, the number of staff affected, current disposition of those staff, and the revenues generated annually by that office prior to closure.

D. The status of downsizing the New York field office and associated savings (this was mentioned in the SRL).

E. As an alternative to closing the Long Beach, Ventura, West Covina, and Kearny Mesa field offices, request that the BOE report on any other offices that should be closed instead.

0890 Secretary of State

The Secretary of State (SOS) is the chief election officer of the State and is responsible for the administration and enforcement of election laws. The office is also responsible for the administration and enforcement of laws pertaining to filing documents associated with corporations, limited partnerships, and the perfection of security agreements. In addition, the office is responsible for the appointment of notaries public, enforcement of notary laws, and preservation of certain records with historical significance. All documents filed with the office are a matter of public record and of historical importance. The Secretary of State's executive staff determines policy and administration for Elections, Political Reform, Business Programs, Archives, Information Technology and Management Services Divisions. Total proposed budget expenditures are $76.4 million, of which $30.3 million is from the General Fund.

1. **Special Items of Expense.** The Governor's Budget includes an expenditure of $3.02 million for special items of expense to cover anticipated election costs in the budget year, i.e., the June 2006 election. These expenses include paying for the ballot pamphlet, voter registration cards, and election night reporting. This annual expense has been left unbudgeted for the last several years, resulting in the Secretary of State having to submit deficiency requests to pay the expenses—a practice inconsistent with the "unanticipated" criteria of deficiency requests.

   Staff Comment: A county's 2005-06 voter registration card (VRC) needs include both the restocking of existing cards to meet HAVA requirements and filling counties' quarterly replacement orders, a total roughly approximated at 20 million cards. The HAVA plan described previously includes only an expense item for restocking 10 million new cards and removing the current voter registration cards from circulation for the June 2006 election.

   An alternative to funding the quarterly replacements with General Fund would be to fully fund the 2005-06 voter registration card replacement with federal HAVA funds.

   At the April 27 hearing, staff was directed to explore, with Legislative Counsel, any legal issues involving the shift of all VRC replacement costs in 2006-07 to federal HAVA funds. In consultations with Legislative Counsel and an attorney with the Election Assistance Commission, it was determined that the proposed usage is most likely consistent with HAVA direction to improve the administration of elections for federal office. (A separate issue regarding the deadline to spend the funds was raised, which precluded a definitive answer.) In general, to the extent that the VRCs serve as a new or improving function in the administration of federal elections, the VRCs could be reimbursed out of HAVA funds.

   Staff Recommendation: Approve the budget change proposal for special items of expense, reduced by $521,000, to reflect removal of the voter registration card funding. (Note: Because HAVA funding is one-time only, the Secretary of State's office will likely request funding next year to pay for the quarterly voter registration card requests.)

   VOTE:

1730 Franchise Tax Board

The Franchise Tax Board (FTB) administers state personal income tax and corporation taxes for the State of California, collects debt on behalf of other state agencies and local entities, and performs audits of campaign statements and lobbyist reports authorized by the Political Reform Act of 1974. The FTB is tasked to correctly apply the laws enacted by the Legislature; to determine the reasonable meaning of various code provisions in light of the legislative purpose in enacting them; and to perform this work in a fair and impartial manner, with neither a government nor a taxpayer point of view. Total proposed budget expenditures for the Franchise Tax Board are $699.6 million, of which $512.3 million is from the General Fund.

1. **Revenue Collection Activities.** The collection activities of the Franchise Tax Board (FTB) involve collection on accounts receivable that the department establishes by its self-assessment, audit, settlement, and filing activities. In their *FY 2004/05 AND 2005/06 Report to the Senate and Assembly Budget Committees FTB Audit and Collection Activities*, the Franchise Tax Board (FTB) notes that 47 limited-term collections staff will expire at the end of 2004-05. The FTB reports that if these positions were extended, they would be able to generate ongoing revenues of $12.6 million.

   Staff Comment: With the approximate cost of $2.8 million annually to extend these positions and revenues of $12.6 million, the benefit-to-cost ratio is 4.5 to 1. This rate is consistent with current and past revenue-to-cost ratios.

   Staff Recommendation: Extend the existing 47 positions for two years and direct the Department of Finance to score the additional $12.6 million in new revenues in Change Book.

   VOTE:

2. **Misdemeanor Program.** The Franchise Tax Board staff proposed to their Board, but subsequently withdrew, a proposal to establish a misdemeanor program in FTB's Investigations Bureau. The primary purpose of this program would be to step-up deterrence by prosecuting grossly errant taxpayers and publicize the cases. This proposal would involve utilizing new technologies against the underground economy by focusing on taxpayers who participate in tax evasion and the underground economy but don't warrant felony prosecution.

   The Franchise Tax Board proposed 14 positions and $1,226,000 to implement this program. Anticipated revenues in the first year are $2.5 million, rising to $4-$5 million in subsequent years.

   Staff Comment: At the April 27 hearing, the issue was raised as to whether defendants in a misdemeanor case will be entitled to trial. Revenue and Taxation Code Section 19701 provides that a $5000 penalty may be applied for failure to file returns, pay tax or provide required information, or for fling false returns. Under this code section, these actions are considered a misdemeanor. If charged with a misdemeanor, all defendants will have the opportunity to go to trial.

   Notwithstanding the possibility for a case to be contested, the FTB proposes extraordinary measures to secure the strength of their misdemeanor cases. The FTB has already identified more than 10,000 cases that meet the misdemeanor criteria which includes: (1) the case has a balance of more than $15,000, (2) there has been no response to collection or filing enforcement contacts over two years or more, and (3) the Investigations Program has agreed to work the case.

   Of the potential universe, FTB would begin working up to 500 cases in 2005-06 and anticipates closing approximately 200 cases a year. This activity is expected to generate $2.5 million in the first year and $4 million thereafter. The balance of 300 cases will be in progress in any given year. Of the 200 cases closed, the FTB expects to prosecute only half, from which the $2.5 million to $4 million will be generated. Some of those cases not selected for prosecution will be referred to the Audits division for potential follow up and some will be dismissed.

The proposed misdemeanor program is a deterrent program with a 4-1 benefit-cost ratio. The deterrent effect on other taxpayers who might otherwise not pay their taxes (presumably enhanced by the publicity component of this proposal) has not been measured, but known revenues are estimated at 4-1. Staff notes that the first year benefit-to-cost ratio of 2.5 to 1 is consistent with components of the Administration's tax gap BCP, which range from .65 to 1, to 7 to 1.

Staff Recommendation: Augment the Franchise Tax Board budget by 14 positions and $1.226 million to implement the misdemeanor program and direct the Department of Finance to reflect the additional $2.5 million in 2005-06 revenues in Change Book.

VOTE:

3. **Settlement Revenue.** In 2002 the Franchise Tax Board hired four limited-term positions to help expedite the completion of settlement cases. During the 2004-04 year, these positions were estimated to generate $15 million in accelerated revenues but actually generated $219.2 million. These positions are set to expire on June 30, 2005.

   Staff Comment: At staff request, the FTB has provided information related to extending two of the positions for three additional years. Estimated accelerated revenues for the next three years are $5.8 million, $7.8 million, and $12.6 million.

   Staff Recommendation: Extend two of the existing attorney positions for an additional three years and direct the Department of Finance to reflect in changebook the additional revenues of $5.8 million (General Fund) in 2005-06.

   VOTE:

4. **Discovery Audits.** The Franchise Tax Board has historically utilized "Discovery Audits" to unearth valuable information in the areas of tax abuse and noncompliance. Discovery audits generally explore avenues of tax evasion that are new or not fully understood by the tax agency. Those findings are then referred to other auditing and collection programs that use that information to generate revenues many times the department's cost. Income underreporting, which accounts for 80 percent of the tax gap, is the primary focus of discovery efforts.

   According to the LAO, in recent years the FTB's discovery audit resources have been diverted to combat the explosive growth of abusive tax shelters. In 1999-00, FTB spent 23,000 hours on discovery audits. In the current year, only 5,000 hours will be spent on that activity. Discovery audits do not generally reach the 5-1 benefit-to-cost ratio previously described.

   At the April 27 hearing, the Franchise Tax Board reported to the Subcommittee on past Discovery Audit activities and the assumptions behind their estimated effectiveness.

Staff Comment: The FTB has stated that it would require a total of 20 positions at a cost of $1.7 million (full year costs) to fully implement a multidisciplinary compliance discovery program. FTB anticipates at least several million dollars annually of additional revenue. Accordingly, it would be conservative to budget offsetting revenues equal to the cost of the program.

Staff Recommendation: Augment the FTB budget by 20 discovery audit positions at a cost of $1.7 million for two years limited-term.

VOTE:

1760 Department of General Services

The Department of General Services (DGS) provides management review and support services to state departments. The DGS is responsible for the planning, acquisition, design, construction, maintenance, and operation of the state's office space and properties. It is also responsible for the procurement of materials, data processing services, communication, transportation, printing, and security. Total proposed budget expenditures for the Department of General Services are $970.2 million.

1. **Capital Outlay Finance Letters for Reappropriation.** In Capital Outlay Finance Letters, the Department of Finance proposed the following reappropriations:

   A. Sacramento Central Plant Renovation—Acquisition, preliminary plans, working drawings and construction. The Department of General Services (DGS) seeks reappropriation due to delays in completing environmental documents and site acquisition, resulting in the project not being ready to proceed to bid.

   B. Department of Corrections, San Quentin Building 22—working drawings. DGS requests an extended liquidation period for working drawings for the seismic retrofit of the San Quentin Building 22.

   C. Department of Corrections, Tracy Hospital Building—Structural Retrofit Construction. DGS seeks reappropriation due to delays in completing the HVAC component of this project. This delay has led to the department's inability to award the construction contract by June 30, 2005.

   D. Department of Corrections, Tehachapi Dormitories F5, F6, F7, and F8—Construction. DGS seeks reappropriation due to contractual delays that will extend the working drawings schedule beyond July 2005. Consequently, DGS cannot proceed to bid until August 2005.

   E. Department of Corrections, Tehachapi Dormitories E1, E2, E3, and E4—Construction. DGS seeks reappropriation to maintain project consistency with the F5-F8 dormitories identified in (D) above. The department is bidding the two projects together in order to realize project savings.

   F. Department of Transportation, Marysville Office Building—Construction. DGS has encountered site selection problems which have delayed the department's plan to proceed to bid by June 30, 2005.

   Staff Recommendation: Approve the Finance Letters for reappropriation.

   VOTE:

2. **Capital Outlay Finance Letters for Augmentation.** The Department of General Services seeks to augment Item 1760-301-0660 by $35,426,000 and add provisional language to reflect increased costs for the following two projects:

   - Sacramento Office Buildings 8 and 9 (714 and 744 P Street) - $26,844,000. This request represents a 26.56 percent increase in construction costs over the budget estimated at the preliminary plans stage. DGS attributes the cost increase to (1) the availability of more detailed drawings (i.e. working drawings) upon which to base estimates for various building systems, and (2) rapid escalation in costs of raw materials and increased labor rates. Total project cost has increased from $110 million to $135 million.

- Replacement of CalTrans' Marysville Office Building - $8,582,000. This increase represents a 15.17 percent increase over the currently appropriated of $56,575,000. Project cost increases have been attributed to higher materials and labor costs, as well as significant increases in projected industry escalation rates.

Staff Recommendation:

DISCUSSION: Request DGS report on:
A. The effect of increased materials, labor, and other project costs on other state projects currently or soon to be under construction.

B. Steps taken to decrease the incidence of project cost underestimates based on insufficient drawings.

ACTION: Approve the two Finance Letters and associated budget bill language.

VOTE:

3. **Office Building 10 Renovation: 721 Capitol Mall.** The Department of General Services requests reappropriation of $23,738,000 of construction funds for the education building at 721 Capitol Mall.

Staff Comment: The reappropriation language includes a two-year extension on approval to bid, from June 30, 2005, to June 30, 2007. A two-year extension would be unusual and does not appear necessary. Reappropriations are usually granted for one year at a time.

Staff Recommendation: Amend the proposed budget bill language to reflect reappropriation through June 30, 2006.

> *4. Notwithstanding Section 2.00 of the Budget Act, the funds appropriated by Item (1), Schedule (3), of the Public Buildings Construction Fund in this item shall be available for expenditure until June 30, 2008. In addition, the balance of funds reappropriated for construction by Item (1), Schedule (3) of the Public Buildings Construction Fund that have not been allocated, through fund transfer or approval to proceed to bid, by the Department of Finance on or before June 30, 2006, shall revert as of that date to the fund from which the appropriation was made.*

VOTE:

4. **Increase Reappropriation for Oakland Police Administration Retrofit.** The Administration requests to reappropriate $500,000 authorized by the Earthquake Safety and Public Building Rehabilitation Bond Act of 1990 (Proposition 122) for the Oakland Police Administration Building Retrofit.

The following budget bill language would implement that change:

> *1760-492—Reappropriation, Department of General Services. The balance, as of June 30, 2005, of the funds appropriated pursuant to Item 1760-101-0768, Budget Act of 1994 (Ch. 139, Stats. 1994), as reappropriated by Item 1760-492, Budget Acts of 2003 and 2004 (Ch. 157, Stats. 2003 and Ch. 208, Stats. 2004), are reappropriated and shall be available for expenditure through June 30, 2007.*
>
> *Schedule:*
> *(1) 3116-Richmond, Contra Costa –City Hall………………………………………… 1,149,975*
> *(2) 3117-Richmond, Contra Costa –Hall of Justice …………………………………. 683,613*
> *(3) 4029-Alameda, Oakland Police Administration Retrofit—Oakland……………. 500,000*

Provisions:
1. After June 30, 2007, these funds will no longer be available for expenditure and shall not be reappropriated.

As background, on April 1 the Department of Finance submitted a Finance Letter seeking to revert the funds associated with this project. This reversion request was withdrawn in a subsequent letter.

Staff Recommendation: Approve the budget bill language (above) provided in the amended Finance Letter request.

VOTE:

5. **Office of State Publishing Reduction.** The Administration proposes a reduction of $6.2 million and 120 positions at DGS' Office of State Publishing (OSP). This proposed reduction follows declining state agency printing contracts and a statewide shift to more digital technology printing and Internet publishing. The OSP has incurred $14.3 million in losses over the last ten years, including a $5.5 million loss in 2003-04 (a 27 percent revenue decrease). The department explains that the OSP's broad range of products preclude it from tailoring services and force it to charge non-competitive rates. These rates naturally drive state agencies to use outside vendors. Under this proposal, "core" OSP services to the Legislature and other state agency clients would be preserved.

In a related proposal, the Administration proposes to extend, for one year, the requirement that state agencies also request a bid from OSP when seeking services that the OSP currently provides. The Subcommittee adopted this language (for one year) during last year's budget hearings.

SECTION 1. Section 14612.2 of the Government Code is amended to read:

14612.2. (a) Notwithstanding Chapter 7 (commencing with Section14850) of Part 5.5 of Division 3 of Title 2 of, or Section 14901 of, the Government Code, no agency is required to use the Office of State Publishing for its printing needs and the Office of State Publishing may offer printing services to both state and other public agencies, including cities, counties, special districts, community college districts, the California State University, the University of California, and agencies of the United States government. When soliciting bids for printing services from the private sector, all state agencies shall also solicit a bid from the Office of State Publishing when the project is anticipated to cost more than five thousand dollars ($5,000).

(b) This section shall remain operative only until the effective date of the Budget Act of ~~2005~~ *2006* or July 1, ~~2005~~ *2006*, whichever is later, and as of January 1, ~~2006~~ *2007*, is repealed, unless a later enacted statute that is enacted before January 1, ~~2006~~ *2007*, deletes or extends the dates on which it becomes inoperative and is repealed.

The Subcommittee first heard this issue on April 27 and left it open.

Staff Comment: No job loss is expected with this reduction. One hundred and eighteen of one hundred and twenty affected employees have already found other positions or retired and the remaining two are expected to resolve their status in the coming weeks.

In analyzing this proposal, it was learned that an operating expense reduction that would normally accompany a staff reduction had been omitted from the proposal. Specifically, the general expense category did not show a corresponding reduction associated with the positions. To reflect this reduction fully and accurately, an additional reduction of $60,000 should be included.

Staff Recommendations:

A. Approve the budget change proposal with an amendment to reflect an additional reduction of $60,000 in general expense. (Reduce Item 1760-001-0666 by $60,000)

B. Approve the proposed trailer bill language shown above.

VOTE:

6. **Reduce State Travel Costs by Booking Online.** The Governor's California Performance Review (CPR) provided a recommendation that DGS should: (1) establish new travel policies to limit travel agents, book online, and find the best possible fare and (2) take advantage of deals offered in Southwest's SWABIZ program and United Airlines Travel Program (UTAP) for business customers. Estimated savings for adapting these changes are $14.9 million annually, based on shifting to making 80 percent of bookings online and saving 30 percent on online fares.

Subsequent to the release of the CPR, DGS initiated a pilot project to study the savings that could be achieved by shifting more bookings to SWABIZ online. During two three-month periods DGS compared contract fares and SWABIZ fares over 1,200 flight segments (one-way flight) and discovered that significant state savings were possible. Specifically, DGS found that based on the 134,000 transactions executed in 2004, a potential $7.1 million in savings could be generated.

Staff Comment: Without a consistent statewide approach to airline bookings, the state is subject to an unnecessarily high cost for airline tickets. Furthermore, with department budgets built with a set blanket travel sum, the incentives to save are sometimes insufficient. High-level direction to use an online filing portal, coupled with an economical airline, is a prudent first step in minimizing travel costs.

The three key components of a fundamental process change would be:

- STATE OF CALIFORNIA TRAVEL PORTAL. The Department of General Services should create an airline booking website for all departments to utilize when buying in-state tickets. This system would facilitate buying tickets on Southwest Airlines (the state's primary in-state carrier) and require (with exceptions) that tickets be purchased at least two weeks before the flight. Estimated costs to build the portal are $100,000.

- MANAGEMENT MEMO DIRECTIVE: The Administration should provide a directive to departments introducing them to the new policy and provide information on the use of the travel portal web site, compliance requirements, and waivers to the 14-day advance purchase rule.

- ANALYSIS AND TRAINING: In order to facilitate implementation, staff and training resources would be needed. Staff activities would include tracking progress, training departments, analyzing travel data, providing reports to department officials, and maintaining the portal web site. Approximate costs for a research analyst-level staff person (with benefits and operating expenses) are $100,000. Departmental training activities and associated travel cost approximately $50,000. These latter costs are expected to decline significantly after the first year.

To fund the up to $250,000 first-year cost for this proposal, it is suggested that a small fee per ticket transaction be established. Based on the 358,000 airline ticket transactions booked using the Office of Fleet Administration's travel contracts, a small fee (likely less than $1) per transaction would cover the initial costs. After 2005-06, when the portal is in place and departments trained, the fee would be reduced accordingly.

Staff notes that the proposed changes are for in-state travel only and that additional savings may be generated if these practices are applied to out-of-state travel. The travel portal could be altered to book out-of-state tickets, as well as in-state. The California Performance Review suggests savings of approximately $7 million for applying reforming out-of-state travel purchasing practices.

Staff Recommendations:
DISCUSSION: Request DGS and the Department of Finance comment on estimated savings (fund and amount) for this proposal.

ACTION
A. Direct DGS to initiate the travel portal and associated support staff and training, at a cost not to exceed $250,000 and authorize the establishment of a transaction fee to pay for those activities.

B. Direct DGS to initiate a study of out-of-state airline travel costs and utilize the findings of such a study to implement cost saving measures consistent with those outlined in this issue.

C. Request that the Administration issue a management directive on the revised airline booking policies and the travel portal.

8885 Commission on State Mandates

The Commission on State Mandates (CSM) is a quasi-judicial body that makes the initial determination of state mandated costs. The Commission is tasked to fairly and impartially determine if local agencies and school districts are entitled to reimbursement for increased costs mandated by the state. Total proposed budget expenditures for the Commission on State Mandates are $1.6 million, all of which is state General Fund.

1. **Mandate Reimbursement Process.** As was previously described in a State Controller’s Office (SCO) budget issue, the CSM Item 8885-001-0001 had, in prior years, contained a provision stipulating how mandate claim preparation expenses can be paid. The item said that independently contracted mandate preparers may charge the lesser cost of either preparation by the local agency or education authority, or up to ten percent of the total mandate cost for their services, with exceptions when supported by documentation.

   DOF representatives have informed staff that the provisional language was removed from the CSM budget as part of the Administration’s proposal to suspend the mandate reimbursement process mandate.

   Staff Comment: The Commission on State Mandates should reconsider the mandate process reimbursement mandate. In that reconsideration, the Commission should specifically address the matter of developing a simpler system for review of test claims and providing mandate reimbursements. A reconsideration could be accomplished with the following language:

   > *Notwithstanding any other provision of law, the Commission on State Mandates shall reconsider its test claim decision regarding the Mandate Reimbursement Process program (CSM-4204) enacted by Chapter 486 of the Statutes of 1975 and Chapter 1459, Statutes of 1984, to determine whether the statutes are a reimbursable mandate under Section 6 of Article XIII B of the California Constitution and in light of federal and state statutes enacted and federal and state court decisions rendered since the test claim statute was enacted. If a new test claim is filed on Chapter 890, Statutes of 2004,[1] the Commission shall, if practicable, hear and determine the new test claim at the same time as this reconsideration.*
   >
   > *The commission, if necessary, shall revise its parameters and guidelines on the Mandate Reimbursement Process program (CSM-4485) to be consistent with this reconsideration and the Controller shall revise the appropriate claiming instructions to be consistent with this act. Any changes by the commission to the original statement of decision (CSM-4204) shall be deemed effective July 1, 2006.*

   In the event that a mandate is determined, it is important for claimants to know exactly what are allowable costs. In preparing the revised parameters and guidelines, the Commission should specify in simple terms using unit cost measures, exactly what allowable costs are. This determination is commonly referred to as a “reasonable reimbursement methodology.”

   In a related development, the State Controller’s Office expressed concern that current law precludes them from fully auditing mandates. This is because the statute of limitations declares that auditing may occur no later than three years after a claim was filed or amended. Because this mandate (and many others) have been deferred in recent years (a process which provides for nominal $1000 appropriation in the budget bill) the SCO cannot audit claims 3 years beyond the last time it was

[1] See AB 2856-Laird.

deferred. A proposed solution to this problem would be to enact trailer bill amending the statute of limitations in Government Code section 17558.5 to permit audits beyond 3 years after filing or amendment for mandates that were not fully funded.

Staff Recommendations: Direct staff to work with the Legislative Analyst to draft budget trailer bill legislation that will:

A. Direct the Commission to reconsider the mandate reimbursement process mandate in accordance with the language provided above,

B. Direct the Commission to develop a simple and reasonable reimbursement methodology for the mandate reimbursement process mandate based on unit costs (if the Commission determines that a mandate exists), and

C. Authorize the SCO to initiate an audit of all mandates for three years beyond the existing time period provided for in Government Code 17558.5.

9210 Local Government Financing

Local governments receive a variety of subventions from the state for designated purposes such as health, welfare, and public safety programs. The state provides other assistance to local governments, primarily counties, through other direct programs contained in other items in the budget. For example, Health and Human Services has numerous programs where the state and counties jointly provide funding for services. State funding is also included in Public Safety for such issues as local crime labs and suppression of high intensity drug trafficking areas. Local Government Financing proposed in 2005-06 totals $157.4 million, all of which is General Fund.

1. **Juvenile Justice Grants.** The Governor's Budget eliminates $100 million in General Fund support for the Juvenile Justice Crime Prevention Act (JJCPA) program, a program that provides discretionary funding for juvenile justice activities to counties on a per capita basis. In what the Administration regards as a corresponding augmentation, the Budget diverts $25 million to the Board of Corrections "for distribution to local governments."

   The Governor's Budget Summary reports that negotiations are occurring between the Administration and local governments on all statewide changes in the Juvenile Justice system. These negotiations will consider funding for all corrections activities affecting minors. The outcome of those meetings as they address JJCPA funding is expected to be presented in the May Revision.

   Trailer bill language is attached.

   Staff Comment: The JJCPA (Chapter 333, Statutes of 2000) established a stable funding source for local juvenile justice programs. The programs have a carefully documented record of curbing crime and delinquency among at-risk youth and young offenders. The JJCPA supports 193 collaborative programs in 56 counties to address tailored needs and responses to juvenile crime.

   Based on research conducted by the California Board of Corrections, the JJCPA Programs as a whole are making a significant difference in curbing crime and delinquency. In analysis comparing juveniles who receive program services versus those who don't, it was found that:
   - An average 21.8 percent of program juveniles were arrested vs. 32.5 percent in the reference group
   - An average 18.2 percent of program juveniles were incarcerated vs. 23.4 percent for the reference group
   - An average 56.3 percent of program juveniles completed court-ordered community service vs. 39.4 percent for the reference group

   (Source: California Board of Corrections Annual Report of the Juvenile Justice Crime Prevention Act)

   The Governor's Budget proposal not only unfunds JJCPA programs, it also de-links them from the Citizen's Option for Public Safety (COPS) program. The two discretionary crime funding programs had been linked in an arrangement intended by the Legislature in the authorizing legislation (AB 1913, 2000) to equally fund crime deterrence (JJCPA) and crime prosecution (COPS) activities.

   Staff Recommendation: Reject the Governor's proposed elimination of the JJCPA funding and augment Item 9210-001-0001 by $100 million to reflect full restoration of the program

   VOTE:

2. Mandate: Open meetings. The Administration proposes to restructure the Open Meetings mandate and provide $2 million in 2005-06 funding, a funding level significantly below the $15 million expense expected in the current year. In a recent staff meeting, the Department of Finance provided *draft* trailer bill language and explained that the language is expected to support a much narrower scope of printing costs and postage (approximately $2 million).

Staff Comment: At the April 13 hearing, the Subcommittee heard testimony from the LAO on the role of the purpose of the Open Meetings Act and their proposal to make the Open Meetings Act optional. The Department of Finance in turn reported that the trailer bill that would implement their proposed reduction Open Meetings Act funding—a component of the January 10 budget—was not yet available. Assuming that proposal became available after the hearing, the LAO was asked to verify costs associated with the Department of Finance proposal. An approved Open Meetings Act trailer bill still has not been provided.

Staff Recommendation:
DISCUSSION: The Department of Finance should report on anticipated costs for this mandate.

ACTION: In the absence trailer bill language to consider, reject the Administration's proposal to amend the Open Meetings Act and restore funding for that mandate.

VOTE:

3. Mandate: Photographic Records of Evidence. This mandate requires local law enforcement agencies to provide photographs, chemical analyses, and other substitutes for evidence that a court determines poses a health, safety, security, or storage problem. In their mandate claims, local agencies typically request reimbursement for purchases of high-tech digital imaging and printing equipment. The Administration proposes to suspend this mandate in the budget year.

Staff Comment: At the April 13 hearing, the Subcommittee heard testimony from the LAO on their concerns related to this mandate, specifically that suspending the Photographic Rules of Evidence Mandate would add ambiguity to laws of evidence and increase court costs. Testimony from the Administrative Office of the Courts suggested that cost state costs may actually increase based on increased court costs to accommodate more cumbersome and/or dangerous physical evidence. Staff understands that the Department of Finance and the Administrative Office of the Courts have consulted but been unable to develop consensus language to amend the mandate and restrain costs.

Staff Recommendation:
DISCUSSION: The Department of Finance should report on anticipated costs for this mandate.

ACTION: Reject the Administration's proposal to suspend the Photographic Records of Evidence Mandate and restore funding for that mandate.

VOTE:

Proposed Control Section 8.53

1. **Notice of Federal Audits**. The federal government periodically audits states to verify that federal funds are appropriately utilized. When their audits find ineligible or inappropriate expenditures, the federal government issues an audit describing the reasons for and amount of reduction. Under current practice, the Legislature is notified of the amounts of audited reductions only after budget reductions have occurred.

   Staff Comment: A recent federal audit of Medi-Cal expenditures resulted in a more than $5 million General Fund reduction to the current-year budget. Based on recent federal trends, the frequency of audits is expected to grow, particularly in the area of Medi-Cal expenditures.

   In order to keep the Legislature abreast of current-year budget developments and enable appropriate oversight on the use of federal funds, it is recommended that departments provide the Joint Legislative Budget Committee with copies of final audits and letters of deferral.

   Staff Recommendation: Adopt Control Section 8.53 with the following language.

   > *It is the intent of the Legislature that reductions to the enacted budget resulting from federal audits be communicated to the Legislature in a timely manner. Notwithstanding any other provision of law, final federal audits and letters of deferral shall be provided to the Chairperson of the Joint Legislative Budget Committee not less than 30 days after any state agency, department, or other state entity receives a copy of that federal audit or deferral letter. Notification shall include a copy of the final federal audit or deferral letter.*

   Vote:

TRAILER BILL

BOARD OF EQUALIZATION TRAILER BILL
ELECTRONIC FUNDS TRANSFER THRESHOLD

6479.3. (a) Any person whose estimated tax liability under this part averages ~~twenty~~ *ten* thousand dollars ~~($20,000)~~ *($10,000)* or more per month, as determined by the board pursuant to methods of calculation prescribed by the board, shall remit amounts due by an electronic funds transfer under procedures prescribed by the board. Any person who collects use tax on a voluntary basis is not required to remit amounts due by electronic funds transfer.

(b) Any person whose estimated tax liability under this part averages less than ~~twenty~~ *ten* thousand dollars ~~($20,000)~~ *($10,000)* per month or any person who voluntarily collects use tax may elect to remit amounts due by electronic funds transfer with the approval of the board. The election shall be operative for a minimum of one year.

(c) Any person remitting amounts due pursuant to subdivision (a) or (b) shall perform electronic funds transfer in compliance with the due dates set forth in Article 1 (commencing with Section 6451) and Article 1.1 (commencing with Section 6470). Payment is deemed complete on the date the electronic funds transfer is initiated, if settlement to the state's demand account occurs on or before the banking day following the date the transfer is initiated. If settlement to the state's demand account does not occur on or before the banking day following the date the transfer is initiated, payment is deemed to occur on the date settlement occurs.

(d) Any person remitting taxes by electronic funds transfer shall, on or before the due date of the remittance, file a return for the preceding reporting period in the form and manner prescribed by the board. Any person who fails to timely file the required return shall pay a penalty of 10 percent of the amount of taxes, exclusive of prepayments, with respect to the period for which the return is required.

(e) (1) Except as provided in paragraph (2), any person required to remit taxes pursuant to this article who remits those taxes by means other than appropriate electronic funds transfer shall pay a penalty of 10 percent of the taxes incorrectly remitted.
(2) A person required to remit prepayments pursuant to this article who remits a prepayment by means other than an appropriate electronic funds transfer shall pay a penalty of 6 percent of the prepayment amount incorrectly remitted.

(f) Except as provided in Sections 6476 and 6477, any person who fails to pay any tax to the state or any amount of tax required to be collected and paid to the state, except amounts of determinations made by the board under Article 2 (commencing with Section 6481) or Article 3 (commencing with Section 6511), within the time required shall pay a penalty of 10 percent of the tax or amount of tax, in addition to the tax or amount of tax, plus interest at the modified adjusted rate per month, or fraction thereof, established pursuant to Section 6591.5, from the date on which the tax or the amount of tax required to be collected became due and payable to the state until the date of payment.

(g) In determining whether a person's estimated tax liability averages ~~twenty~~ *ten* thousand dollars ~~($20,000)~~ *($10,000)* or more per month, the board may consider tax returns filed pursuant to this part and any other information in the board's possession.

(h) Except as provided in subdivision (i), the penalties imposed by subdivisions (d), (e), and (f) shall be limited to a maximum of 10 percent of the taxes due, exclusive of prepayments, for any one return. Any person remitting taxes by electronic funds transfer shall be subject to the penalties under this section and not Section 6591.

(i) The penalties imposed with respect to paragraph (2) of subdivision (e) and Sections 6476 and 6477 shall be limited to a maximum of 6 percent of the prepayment amount.

(j) The board shall promulgate regulations pursuant to Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code for purposes of implementing this section.

Local Government Financing Language:
Elimination of the Juvenile Justice Crime Prevention Act Programs

Section 30061 of the Government Code is amended to read:
30061. (a) There shall be established in each county treasury a Supplemental Law Enforcement Services Fund (SLESF), to receive all amounts allocated to a county for purposes of implementing this chapter.
(b) In any fiscal year for which a county receives money to be expended for the implementation of this chapter, the county auditor shall allocate moneys in the county's SLESF, including any interest or other return earned on the investment of those moneys, within 30 days of the deposit of those moneys into the fund, and shall allocate those moneys in accordance with the requirements set forth in this subdivision. However, the auditor shall not transfer those moneys to a recipient agency until the Supplemental Law Enforcement Oversight Committee certifies receipt of an approved expenditure plan from the governing board of that agency.
(1) ~~Five and fifteen one-hundredths percent (5.15%)~~ Ten and three tenths percent (10.3%) to the county sheriff for county jail construction and operation. In the case of Madera, Napa, and Santa Clara Counties, this allocation shall be made to the county director or chief of corrections.
(2) ~~Five and fifteen one hundredths percent (5.15%)~~ Ten and three tenths percent (10.3%) to the district attorney for criminal prosecution.
(3) ~~Thirty-nine and seven-tenths percent (39.7%)~~ Seventy nine and four tenths percent (79.4%) to the county and the cities within the county, and, in the case of San Mateo, Kern, Siskiyou, and Contra Costa Counties, also to the Broadmoor Police Protection District, the Bear Valley Community Services District, the Stallion Springs Community Services District, the Lake Shastina Community Services District, and the Kensington Police Protection and Community Services District, in accordance with the relative population of the cities within the county and the unincorporated area of the county, and the Broadmoor Police Protection District in the County of San Mateo, the Bear Valley Community Services District and the Stallion Springs Community Services District in Kern County, the Lake Shastina Community Services District in Siskiyou County, and the Kensington Police Protection and Community Services District in Contra Costa County, as specified in the most recent January estimate by the population research unit of the Department of Finance, and as adjusted to provide a grant of at least one hundred thousand dollars ($100,000) to each law enforcement jurisdiction. For a newly incorporated city whose population estimate is not published by the Department of Finance but which was incorporated prior to July 1 of the fiscal year in which an allocation from the SLESF is to be made, the city manager, or an appointee of the legislative body, if a city manager is not available, and the county administrative or executive officer shall prepare a joint notification to the Department of Finance and the county auditor with a population estimate reduction of the unincorporated area of the county equal to the population of the newly incorporated city by July 15, or within 15 days after the Budget Act is enacted, of the fiscal year in which an allocation from the SLESF is to be made. No person residing within the Broadmoor Police Protection District, the Bear Valley Community Services District, the Stallion Springs Community Services District, the Lake Shastina Community Services District, or the Kensington Police Protection and Community Services District shall also be counted as
residing within the unincorporated area of the County of San Mateo, Kern, Siskiyou, or Contra Costa, or within any city located within those counties. The county auditor shall allocate a grant of at least one hundred thousand dollars ($100,000) to each law enforcement jurisdiction. Moneys allocated to the county pursuant to this subdivision shall be retained in the county SLESF, and moneys allocated to a city pursuant to this subdivision shall be deposited in a SLESF established in the city treasury.
~~(4) Fifty percent (50%) to the county or city and county to implement a comprehensive multiagency juvenile justice plan as provided in this paragraph and to the Board of Corrections for administrative purposes. Funding for the Board of Corrections, as determined by the Department of Finance, shall not exceed two hundred seventy-five thousand dollars ($275,000). For the 2003-04 fiscal year, of the two hundred seventy-five thousand dollars ($275,000), up to one hundred seventy-six thousand dollars ($176,000) may be usedfor juvenile facility inspections. The juvenile justice plan shall be developed by the local juvenile justice coordinating council in each county and city and county with the membership~~

~~described in Section 749.22 of the Welfare and Institutions **Code**. If a plan has been previously approved by the Board of Corrections, the plan shall be reviewed and modified annually by the council. The plan or modified plan shall be approved by the county board of supervisors, and in the case of a city and county, the plan shall also be approved by the mayor. The plan or modified plan shall be submitted to the Board of Corrections by May 1, 2002, and annually thereafter.~~

~~(A) Juvenile justice plans shall include, but not be limited to, all of the following components:~~

~~(i) An assessment of existing law enforcement, probation, education, mental health, health, social services, drug and alcohol and youth services resources that specifically target at-risk juveniles, juvenile offenders, and their families.~~

~~(ii) An identification and prioritization of the neighborhoods, schools, and other areas in the community that face a significant public safety risk from juvenile crime, such as gang activity, daylight burglary, late-night robbery, vandalism, truancy, controlled substances sales, firearm-related violence, and juvenile substance abuse and alcohol use.~~

~~(iii) A local juvenile justice action strategy that provides for a continuum of responses to juvenile crime and delinquency and demonstrates a collaborative and integrated approach for implementing a system of swift, certain, and graduated responses for at-risk youth and juvenile offenders.~~

~~(iv) Programs identified in clause (iii) that are proposed to be funded pursuant to this subparagraph, including the projected amount of funding for each program.~~

~~(B) Programs proposed to be funded shall satisfy all of the following requirements:~~

~~(i) Be based on programs and approaches that have been demonstrated to be effective in reducing delinquency and addressing juvenile crime for any elements of response to juvenile crime and delinquency, including prevention, intervention, suppression, and incapacitation.~~

~~(ii) Collaborate and integrate services of all the resources set forth in clause (i) of subparagraph (A), to the extent appropriate.~~

~~(iii) Employ information sharing systems to ensure that county actions are fully coordinated, and designed to provide data for measuring the success of juvenile justice programs and strategies.~~

~~(iv) Adopt goals related to the outcome measures that shall be used to determine the effectiveness of the local juvenile justice action strategy.~~

~~(C) The plan shall also identify the specific objectives of the programs proposed for funding and specified outcome measures to determine the effectiveness of the programs and an accounting for all program participants, including those who do not complete the programs. Outcome measures of the programs proposed to be funded shall include, but not be limited to, all of the following:~~

~~(i) The rate of juvenile arrests per 100,000 population.~~

~~(ii) The rate of successful completion of probation.~~

~~(iii) The rate of successful completion of restitution and court-ordered community service responsibilities.~~

~~(iv) Arrest, incarceration, and probation violation rates of program participants.~~

~~(v) Quantification of the annual per capita costs of the program.~~

~~(D) The Board of Corrections shall review plans or modified plans submitted pursuant to this paragraph within 30 days upon receipt of submitted or resubmitted plans or modified plans. The board shall approve only those plans or modified plans that fulfill the requirements of this paragraph, and shall advise a submitting county or city and county immediately upon the approval of its plan or modified plan. The board shall offer, and provide if requested, technical assistance to any county or city and county that submits a plan or modified plan not in compliance with the requirements of this paragraph. The SLESF shall only allocate funding pursuant to this paragraph upon notification from the board that a plan or modified plan has been approved.~~

~~(E) To assess the effectiveness of programs funded pursuant to this paragraph using the program outcome criteria specified in subparagraph (C), the following periodic reports shall be submitted:~~

~~(i) Each county or city and county shall report, beginning October 15, 2002, and annually each October 15 thereafter, to the county board of supervisors and the Board of Corrections, in a format specified by the Board of Corrections, on the programs funded pursuant to this chapter and program outcomes as specified in subparagraph (C).~~

~~(ii) The Board of Corrections shall compile the local reports and, by March 15, 2003, and annually thereafter, make a report to the Governor and the Legislature on program expenditures within each county and city and county from the appropriation for the purposes of this paragraph, on the outcomes as~~

~~specified in subparagraph (C) of the programs funded pursuant to this paragraph and the statewide effectiveness of the comprehensive multiagency juvenile justice plans.~~

(c) Subject to subdivision (d), for each fiscal year in which the county, each city, the Broadmoor Police Protection District, the Bear Valley Community Services District, the Stallion Springs Community Services District, the Lake Shastina Community Services District, and the Kensington Police Protection and Community Services District receive moneys pursuant to paragraph (3) of subdivision (b), the county, each city, and each district specified in this subdivision shall appropriate those moneys in accordance with the following procedures:

(1) In the case of the county, the county board of supervisors shall appropriate existing and anticipated moneys exclusively to provide frontline law enforcement services, other than those services specified in paragraphs (1) and (2) of subdivision (b), in the unincorporated areas of the county, in response to written requests submitted to the board by the county sheriff and the district attorney. Any request submitted pursuant to this paragraph shall specify the frontline law enforcement needs of the requesting entity, and those personnel, equipment, and programs that are necessary to meet those needs. The board shall, at a public hearing held at a time determined by the board in each year that the Legislature appropriates funds for purposes of this chapter, or within 30 days after a request by a recipient agency for a hearing if the funds have been received by the county from the state prior to that request, consider and determine each submitted request within 60 days of receipt, pursuant to the decision of a majority of a quorum present. The board shall consider these written requests separate and apart from the process applicable to proposed allocations of the county general fund.

(2) In the case of a city, the city council shall appropriate existing and anticipated moneys exclusively to fund frontline municipal police services, in accordance with written requests submitted by the chief of police of that city or the chief administrator of the law enforcement agency that provides police services for that city. These written requests shall be acted upon by the city council in the same manner as specified in paragraph (1) for county appropriations.

(3) In the case of the Broadmoor Police Protection District within the County of San Mateo, the Bear Valley Community Services District or the Stallion Springs Community Services District within Kern County, the Lake Shastina Community Services District within Siskiyou County, or the Kensington Police Protection and Community Services District within Contra Costa County, the legislative body of that special district shall appropriate existing and anticipated moneys exclusively to fund frontline municipal police services, in accordance with written requests submitted by the chief administrator of the law enforcement agency that provides police services for that special district. These written requests shall be acted upon by the legislative body in the same manner specified in paragraph (1) for county appropriations.

(d) For each fiscal year in which the county, a city, or the Broadmoor Police Protection District within the County of San Mateo, the Bear Valley Community Services District or the Stallion Springs Community Services District within Kern County, the Lake Shastina Community Services District within Siskiyou County, or the Kensington Police Protection and Community Services District within Contra Costa County receives any moneys pursuant to this chapter, in no event shall the governing body of any of those recipient agencies subsequently alter any previous, valid appropriation by that body, for that same fiscal year, of moneys allocated to the county or city pursuant to paragraph (3) of subdivision (b).

(e) Funds received pursuant to subdivision (b) shall be expended or encumbered in accordance with this chapter no later than June 30 of the following fiscal year. A local agency that has not met this requirement shall remit unspent SLESF moneys to the Controller for deposit into the General Fund.

(f) If a county, a city, a city and county, or a qualifying special district does not comply with the requirements of this chapter to receive an SLESF allocation, the Controller shall revert those funds to the General Fund.